FEDERAL RESERVE BANK of ST. LOUIS

Banking Insights
Topics of Interest to Community Bankers

An Overview of Bank Credit Expansion Since the Financial Crisis

Summary

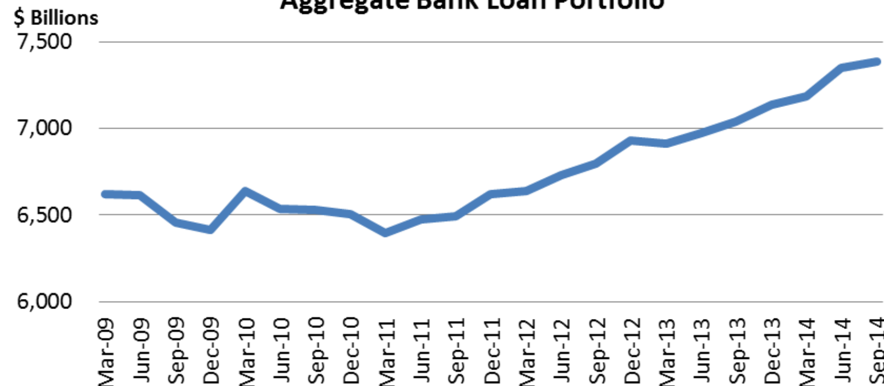
The loan portfolios of U.S. commercial banks have gradually expanded since December 2011, reaching $7.4 trillion at the end of the third quarter of 2014. (See Figure 1.) Although bank credit accounts for just 30 percent of total domestic, nongovernment outstanding credit in the U.S, growth trends in bank portfolios are useful to understanding broader credit conditions in the U.S. economy.[1] This issue of *Banking Insights* examines the current credit expansion and reviews bank portfolios by loan type and bank asset size to highlight which types of banks are most aggressively expanding credit.

Background and Analysis

The data used in this report come from the balance sheets (formally, Consolidated Reports of Condition and Income, or call reports) of all U.S. commercial banks, but excludes thrifts as well as branches and agencies of foreign banks. As of Sept. 30, 2014, bank loan portfolios were distributed as follows:

Distribution by Loan Type		Distribution by Asset Size[2]	
Retail[3]	44 percent	Community Banks	21 percent
Commercial and Industrial (C&I)	22 percent	Regional Banks	9 percent
Commercial Real Estate (CRE)	20 percent	Domestic SIFIs	25 percent
Other	12 percent	Large SIFIs	45 percent
Agricultural	2 percent		

Figure 1



SOURCE: Consolidated Reports of Condition and Income.

There is a difference in portfolio allocation by type of loans among banks in different asset size classes. Community banks, for example, tend to have a portfolio concentration in CRE

[1] Source: Federal Reserve, Flow of Funds. The total domestic, nongovernment outstanding credit market in the U.S. is measured as the sum of the debt outstanding from the household, nonfinancial corporate and nonfinancial noncorporate sectors. It excludes all federal, state and municipal debt.

[2] Community banks are those with assets of less than $10 billion. Regional banks are those with assets of $10 billion to $50 billion. Domestic systemically important financial institutions (SIFIs) are those with assets of $50 billion to $250 billion. Large SIFIs are those with assets of more than $250 billion.

[3] Retail loan portfolios include residential mortgages, home equity lines of credit (HELOCs) and other consumer loans.

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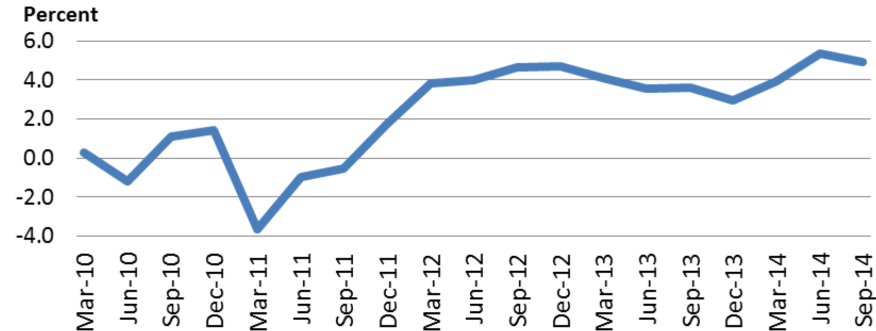
loans. Domestic SIFIs (D-SIFIs) and large SIFIs both generally concentrate their portfolios in retail loans, while regional banks tend to have more diversified portfolios. Community banks account for 78 percent and 44 percent of all agricultural and CRE lending, respectively, while large SIFIs and D-SIFIs combine to account for 77 percent and 42 percent of all retail and C&I lending, respectively. Loan portfolios at regional banks are more evenly distributed, with no single loan category that dominates the others.

Between March 2012 and March 2013, total bank lending expanded by more than 4 percent, led by an expansion of C&I loans, but decelerated to an annualized rate of less than 4 percent between March 2013 and March 2014. (See Figure 2.) However, annual credit growth started to accelerate in the second and third quarters of 2014, reaching 5.4 and 4.9 percent, respectively. This increased growth has come primarily from more robust C&I and CRE lending.

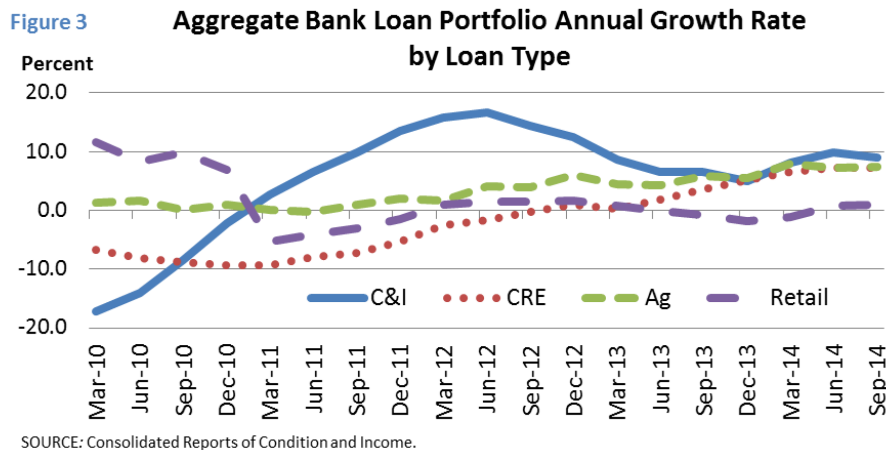
Figure 2 **Aggregate Bank Loan Portfolio Annual Growth Rate**



SOURCE: Consolidated Reports of Condition and Income.

An analysis of bank portfolio growth rates by loan type shows that C&I lending was the first category to show growth after the financial crisis. (See Figure 3.) As early as the first quarter of 2011, banks started to increase their C&I lending, attaining double-digit annual growth rates from the fourth quarter of 2011 through the fourth quarter of 2012, before eventually slowing down to a 7.6 percent average annual growth rate over the past seven quarters. Large SIFIs and D-SIFIs attained 20 percent annual growth rates in their C&I portfolios in mid-2012, but have not grown at that rate since, as the higher growth represented a one-off event when SIFIs gained market share from retreating foreign banks in the C&I market. As C&I lending growth decelerated at SIFIs, it has increased at regional banks, where the C&I loan annual growth rate has topped 20 percent over the past two quarters of data, albeit from a very low base. The data show a healthy demand for and supply of C&I loans, which totaled $1.6 trillion in the third quarter of 2014, compared with $1.1 trillion in the third quarter of 2009.

In contrast to the trends in C&I lending, CRE loan portfolios shrank until the third quarter of 2012, expanded slightly in 2013 and reached an annual growth rate surpassing 5 percent by the beginning of 2014. (See Figure 3.) CRE loans totaled $1.5 trillion at the end of the third quarter of 2014, of which community banks accounted for almost $650 billion, or 44 percent. Community banks' CRE loan totals fell from 2009 until the last quarter of 2012. However, loans picked up again on CRE projects in 2013, and CRE portfolios increased at an annual rate of 5.2 percent in the third quarter of 2014. CRE loan growth has also increased at regional banks, where CRE loan portfolios rose at a rate higher than 20 percent in the second and third quarters of 2014, but again from a very low base.



Separating CRE loans into subtypes highlights some important differences in trends. For example, multifamily residential lending has risen since late 2011, growing by 12.5 percent from the first quarter of 2012 to the third quarter of 2014. In contrast, construction, land and other land development (CLD) loan portfolios shrank from 2009 until the third quarter of 2013, but have grown at an annual pace of nearly 10 percent since the second quarter of 2014. Nonfarm, nonresidential (including both owner- and non-owner-occupied) loans have been growing moderately since early 2012.

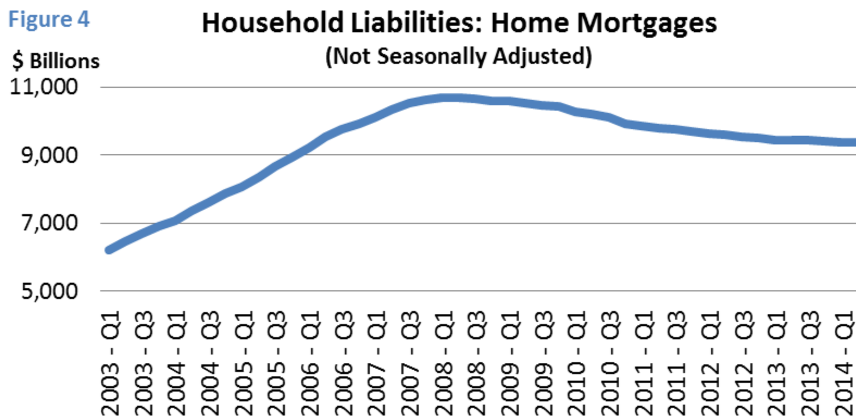
Agricultural loan portfolios, which include loans for agricultural production and loans secured by farmland, totaled $150 billion in the third quarter of 2014, and community banks accounted for $117 billion, or 78 percent of the total. The annual growth in agricultural loan portfolios exceeded 7 percent in 2014, but these loans make up the smallest share of total bank loan portfolios, so the overall economic impact is small.

The only segment of credit which remains subdued is retail, which has only recently seen positive, though tepid, annual growth. (See Figure 3.) Residential real-estate-related loans—including closed-end, 1-4 family residential mortgages and HELOCs—account for 63 percent of bank retail loans, while other consumer loans (credit cards, automobile and student loans) account for the other 37 percent. Total retail lending has not rebounded as much as other categories, primarily because residential mortgage lending remains weak following the financial crisis. Other consumer loans also took a hit following the financial crisis, and are only now starting to recover, growing by slightly more than 4 percent in the second and third quarters of 2014. Total retail loans outstanding stood at $3.2 trillion at the end of the third quarter of 2014, essentially unchanged from late 2010 levels.

Retail loan portfolios at large SIFIs, which account for 48 percent of the retail market, have not seen positive annual growth since the last quarter of 2012. D-SIFIs, which hold about 29 percent of all retail loans, grew their retail portfolios modestly in 2013 but lost momentum in 2014. Regional banks, which make the smallest proportion of retail loans, have grown their portfolios since the last quarter of 2013. Community banks, which account for 14 percent of this loan market, have added to their retail portfolios since early 2014. Because retail loans are the largest portion of most bank portfolios, the lack of loan growth in this category across most segments of the industry helps explain the moderate pace of credit expansion, despite easy monetary policy conditions.

Potential Factors Influencing Retail Credit Growth

One factor still affecting the pace of retail loan growth is that households continue to deleverage their balance sheets after a period of excessive borrowing leading up to the financial crisis.[4] Household deleveraging is most pronounced in mortgage debt outstanding, which totaled $9.4 trillion in the second quarter of 2014, compared to $10.7 trillion in the second quarter of 2008. (See Figure 4.)[5] Senior loan officer survey data indicate that demand for mortgage loans increased in 2012, but banks were slow to relax credit standards. Banks began to ease credit standards for prime residential mortgages in the second quarter of 2014, which coincided with an increase in demand for such mortgages. In the case of nontraditional mortgage loans, credit standards actually tightened between mid-2013 and mid-2014, while demand declined in the period.



SOURCES: Federal Reserve Board and Haver Analytics.

Conclusion

The overall bank credit outlook remains positive, with C&I, CRE and agricultural loan portfolios all growing steadily. The pace of growth for these loan types has accelerated since the second quarter of 2014. Current growth in bank loan portfolios can be interpreted as an indicator of a more sustainable level of credit growth, supporting the production side of the economy. A more consumer-based credit expansion, however, depends on the household deleveraging process coming to an end, which despite stabilizing of late has yet to reverse to support credit growth. If that were to happen, we would expect banks to be the first among financial institutions to grow their retail loan portfolios, since these loans are the largest segment of the bank credit market—larger than C&I and CRE loan portfolios combined.

[4] The ratio of households' credit-market debt to disposable personal income peaked in the fourth quarter of 2007 at 129.7 percent. The ratio has declined almost continuously since then, reaching 102.5 percent in the third quarter of 2014. See the *St. Louis Fed On the Economy* blog post "Will Household Deleveraging End Anytime Soon?" by William R. Emmons and Bryan J. Noeth at https://www.stlouisfed.org/on-the-economy/2014/december/will-household-deleveraging-end-anytime-soon.

[5] For a detailed analysis of borrowing and deleveraging trends by households and individuals of different ages, see the *St. Louis Fed On the Economy* blog post "How Have Households Deleveraged Since the Great Recession?" by Don Schlagenhauf and Bryan J. Noeth at https://www.stlouisfed.org/on-the-economy/2014/december/how-have-households-deleveraged-since-the-great-recession.